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Disloyal Employees and Trade Secrets: What We Can Learn from Barbies and Bratz

An employer's trade secrets, like information protected by trademark and patent laws, represent the investment of time, "sweat equity," and monetary resources by an individual or business entity. Even in Vermont, however, they are misappropriated on a regular basis by disloyal employees who plan to compete with their employers or seek employment with a direct competitor. What is an employer to do? In contrast to patented inventions or registered copyrights and trademarks, trade secrets are deemed protected without disclosure to the world and their protection is not limited to a finite term. Thus, Coca-Cola's unpatented proprietary soft-drink formula, arguably its most valued asset, is guarded exclusively by trade secret law. Trade secret protections vary somewhat from jurisdiction to jurisdiction, despite adoption of a uniform act by the vast majority of American states. A review of trade secret law in Vermont demonstrates that ample protection is available to employers vis-à-vis employees trusted with proprietary materials, if the employer will avail of those protections.

A Primer on Vermont Trade Secret Law for Employers

Along with approximately forty-five other states,¹ Vermont has adopted the Uniform Trade Secrets Act, effective July 1, 1996 (UTSA).² The law has no retroactive effect.³ The UTSA evinces the express intent to displace conflicting tort, restitutionary, and other law of Vermont that provided civil remedies for misappropriation of a trade secret.⁴ Notably, the UTSA does not affect contractual or criminal remedies, even if based upon misappropriation of a trade secret.⁵

The terms of the UTSA define "trade secret" as information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (A) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by

proper means by, other persons who can obtain economic value from its disclosure or use; and

- (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁶

Actual or threatened "misappropriation" may be enjoined.⁷ The injunction will terminate if the trade secret ceases to exist *per se*, but may continue for a period of time if necessary to eliminate the commercial advantage that flows from its misappropriation.⁸ The UTSA also authorizes—but does not require—a superior court to order royalties for future use of the trade secrets, if use could have been prohibited by law. Statutory royalties are to be awarded only in exceptional circumstances.⁹ In some circumstances, affirmative acts to protect a secret may be compelled by court order—that is, a mandatory injunction may issue.¹⁰

A complainant is entitled to recover damages for misappropriation of a trade secret.¹¹ Damages may be awarded on account of the actual loss caused by the misappropriation and the unjust enrichment caused by misappropriation.¹² If damages are difficult to compute, a reasonable royalty may be ordered.¹³ Moreover, if the misappropriation is "malicious," the court may award punitive damages.¹⁴

"Misappropriation" of trade secrets is defined as the "acquisition of a trade secret of another without express or implied consent by a person who:

- (i) used improper means to acquire knowledge of the trade secret; or
- (ii) at the time of the disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
 - (I) derived from or through a person who had utilized improper means to acquire it;
 - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - (III) derived from or through a

person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

- (iii) before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.¹⁵

The conduct that constitutes acquisition of trade secrets by "improper means" includes: theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.¹⁶ In the employment context, employees are routinely given access to trade secrets during the course and scope of their employment. A trade secret is, in the terms of the UTSA, acquired "under circumstances giving rise to a duty to maintain its secrecy or limit its use." The employee's duty of loyalty and fidelity to his employer continues throughout the term of his employment. If the employee uses the trade secrets for himself or another, then the trade secrets have been obtained, "from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use"—that is, the plaintiff in the resulting trade secret dispute. If the employee takes trade secret materials with him at the time of his departure from employment, he has acquired the trade secrets, "by improper means."¹⁷

It should be noted that Vermont has adopted a "cybercrime" statute, 13 V.S.A. §§ 4101-4107, which may also be implicated in situations involving employees and misappropriation of trade secrets located on a computer or network. Knowing and intentional access of a protected computer, "without lawful authority," is punishable by six months in prison and a fine of \$500.00. The statute also provides a private right of action for damages. No cases have arisen under the statute as of the date of this article.

Applicable Federal Law

Vermont employers should be advised

that federal law also makes theft or misappropriation of a trade secret a federal crime. The U.S. Economic Espionage Act of 1996 (USEEA) criminalizes the theft of a trade secret to benefit a foreign power and also that perpetrated for commercial or economic purposes.¹⁸ Economic theft of trade secrets may result in a prison term of up to ten years and a fine of up to \$5 million. The district courts have exclusive jurisdiction over actions under the USEEA, including civil actions for injunctive relief. Unfortunately for private parties, only the Attorney General may pursue such actions. There is no “private right of action,” embodied in the statute.

In contrast, the U.S. Computer Fraud and Abuse Act (CFAA) does provide employers with a private right of action where the misappropriation of trade secrets by an employee involves a “transmission” that causes “damage” to a computer. In the matter of *International Airport Centers v. Citrin*,¹⁹ the U.S. Court of Appeals, by Judge Posner, held that the installation of an “overwriting program” intended to wipe a hard drive and make data unrecoverable is a “transmission” within the meaning of the CFAA. In *Citrin*, defendant quit IAC and went into business for himself, in breach of his employment contract. Before returning his company laptop, he deleted all data on it, presumably taking the date with him, and loaded a secure erasure program. The district court dismissed the suit for failure to state a claim on which relief could be granted. The seventh circuit reversed and remanded, holding that the installation of the secure erasure program was a “transmission” that caused “damage” to a “protected computer.” *Citrin* also “intentionally accesse[d]” a “protected computer without authorization” and caused damage. Judge Posner observed that from the moment *Citrin* breached his contract and his duty of loyalty to his employer, he was not authorized to access the IAC laptop. This, of course, happened even before he left his employment, a point of note. Using the Posner analysis, an aggrieved employer might contend that from the moment the duty of loyalty is breached, an employee has no lawful authority to access trade secrets on his employer’s computer and is liable under the Vermont computer crimes statute.

No federal trade secret statutes have been adopted by Congress. There is currently, however, a move underway to “federalize” trade

secret law.²⁰ Proponents criticize the current fifty-state scheme for its lack of uniformity, the choice of law issues presented, and the problem of “forum shopping.” Additionally, they argue that multi-state business arrangements demand nationwide service of process, extraterritorial jurisdiction, new procedural rules for electronic evidence discovery, and *ex parte* seizure orders available in federal cases. It should be mentioned also that many state laws do not comply with U.S. obligations under international agreements such as North American Free Trade Agreement (NAFTA) and Trade Related Aspects of Intellectual Property Rights (TRIPS). Employment law specialists should keep a watchful eye on federalization efforts.

Vermont Trade Secrets Jurisprudence

Not surprisingly, Vermont’s judge-made law in this area is not extensive. Only a handful of reported decisions of the Vermont Supreme Court squarely address the protection of trade secrets in a non-discovery context.²¹ Others focus on the enforceability of restrictive covenants with or without the presence of employer trade secret concerns.

The most well-known of the trade secret cases is *Omega Optical v. Chroma Technology Corp.*,²² in which Omega sued Chroma for, among other things, trade secret misappropriation, conversion, breach of loyalty, and unfair competition. Omega employees left the company and formed Chroma, a manufacturer of thin-film optical interference filters used in fluorescence microscopy. Omega also produces this product. The ensuing litigation included a twenty-two day bench trial and 111-page opinion. Since the operative acts that led to the litigation predate the effective date of the UTSA, Vermont common law applied to the case.

The court opined that Vermont employees, whether current or former, have a duty not to disclose or use confidential information imparted to them by their employer, following the Restatement (Third) of Unfair Competition § 42, comment b. This duty attaches to any information the employee knows or has reason to know is confidential and may be derived from the totality of the circumstances. Importantly, no explicit notice to the employee is necessarily required.

Omega argued that the duty is owed whether or not the employer has done

anything to protect the information or to communicate to the employee, a proposition that was rejected out of hand. “[T]he case law, [] requires something more than the mere employer-employee relationship to establish a duty of confidentiality.” Thus, while finding that the body of knowledge necessary to produce the Omega filters was sufficiently valuable, not generally well known, and therefore protectable as a trade secret, Omega had failed to take measures to protect the information,²³ and the employees who acquired it were not told it was confidential nor did the circumstances indicate that to them. Particularly fatal to the former employer’s case was its practice of not locking those doors leading to other businesses in the same building and Omega’s donation of a computer to a daycare center, later discovered to have an “unwiped” hard drive. The Court was also not persuaded by the testimony of Omega’s founder that his employees should have intuited that the information in question was confidential by the very nature of the information. He argued, not unpersuasively in the view of this author, that marking some documents “confidential” would undercut the concept that *all* documents were confidential. The court was not moved.²⁴ Interestingly, the case also stands for the proposition that employees may plan to compete with their current employer during the course of that employment relationship, citing a Massachusetts case, *Auguat, Inc. v. Aegis, Inc.*²⁵ Despite the observation that such planning does not alone constitute a breach of the duty of loyalty to an employer, the Court warned that such employees are restricted from misappropriating trade secrets and soliciting customers for their new venture.

The classic “trade secret” is, of course, the proprietary client list. In *Dicks v. Jensen*,²⁶ an appeal from a grant of summary judgment to Dicks under the UTSA, we learn the story of Cary and Brenda Jensen, who worked for Dicks at the Lodge at Mount Snow. After leaving their positions, which were not subject to written employment agreements, the ambitious Jensens solicited the Lodge’s core trade—tour bus customers—to start their own lodge in Bennington, the Autumn Inn. Dicks had owned the Lodge since 1971 and relied heavily on repeat business from bus tour organizers. While employed by the Lodge, the Jensens were responsible for advertising, soliciting, and organizing

the Lodge's bus tours. After leaving their employment and opening their own inn, they systematically contacted each of the Lodge customers to inform them of their move and to solicit their business. In their first season, they booked eleven bus tours, nine of which cancelled standing reservations at the Lodge.

The trial court had granted summary judgment in favor of the Jensens on the trade secrets claim, holding that they did not violate the Vermont UTSA with respect to the Lodge's customer list. The trial court apparently found that Dicks's customer list was not developed by "extraordinary effort" and was, therefore, "readily ascertainable" and not eligible for protection as a trade secret. To grant summary judgment on this issue was error, the Supreme Court observing that there is no standard benchmark for "readily ascertainable" and that such an inquiry is fact-intensive and not suitable for determination by summary judgment. From a long line of customer list cases, the Supreme Court noted that the common denominator among them is that there must exist a considerable investment of time and energy over the years in order to render a customer list protected intellectual property. This process must involve "prospecting," or screening, or "distilling" of customer names and contact information and it is also material whether the market is "highly specialized and narrow."²⁷

However, the Court then addressed the issue whether plaintiff made reasonable efforts to ensure the customer list's secrecy. Citing foreign authority, the Court noted that the burden is on a trade secrets plaintiff to demonstrate that he "pursued an active course of conduct designed to inform his employees that such secrets and information were to remain confidential." There was no evidence in the record indicating that Dicks took any such measures. In fact, the Court noted that there was no agreement memorializing any understanding that the list was confidential and, to make matters worse, the customer names were, for a time, posted on a large reservation board in an unlocked office. The Court was not willing to let plaintiff convert the UTSA provisions into an implied covenant not to compete.²⁸

The enforceability of a restrictive covenant was recently addressed in *Systems & Software, Inc. v. Barnes*.²⁹ Plaintiff designed, developed, sold, and serviced software that allowed utility providers to organize customer billing data, manage work and assets,

and perform finance and accounting functions. Barnes was hired on an at-will basis as the regional VP of sales and executed a non-compete for the term of his employment plus six months. After less than two years, Barnes left and started a partnership with his wife called Spirit Technologies Consulting Group. Spirit's only customer was Utility Solutions, Inc., which provided customer information systems software to municipalities and utilities nationwide. Systems Software obtained an injunction, prohibiting Barnes from selling to Utility Solutions or other direct competitor of plaintiff.

Despite its affirmance of the grant of the injunction, the Vermont Supreme Court took note that Vermont follows the Restatement (Second) of Contracts (1981), which provides that a restrictive covenant is "unreasonably in restraint of trade if (a) the restraint is greater than is needed to protect the promisee's legitimate interest, or (b) the promisee's need is outweighed by the hardship to the promisor and the likely injury to the public. This is slightly different standard than that of the Restatement (Third) of Employment Law, which provides that, "[a] court will enforce a restrictive covenant in an employment agreement to the extent that enforcement is reasonably tailored to protect a legitimate interest of the employer."³⁰ As a result, the Court noted, Vermont courts will "proceed with caution," citing the Vermont mandate to enforce unless the agreement is found to be: (1) contrary to public policy; (2) unnecessary for the protection of the employer; or (3) unnecessarily restrictive of the rights of the employee, with due regard being given to the subject matter of the contract and the circumstances and conditions under which it is to be performed.³¹

Of special note is the fact that the Court rejected the idea that trade secrets need to be at stake, remarking that Barnes was a sophisticated consultant and was told the non-compete was a condition of employment. Determining which restraints are "reasonable" is not an exact science, but the courts will examine the closeness of the relationship between an employee and his employer's customers as well as his knowledge of his employer's business. Regrettably, the Court did not discuss the geographic scope of the non-compete. Finally, the Court distinguished the New Hampshire Supreme Court case, *Concord Orthopaedics Professional Ass'n v. Forbes*,³² in which a doctor left his medical group and challenged the agreement restricting his ability

to compete with the group within a twenty-five mile radius. In *Concord Orthopaedics*, the non-compete was enforced only with respect to patients in the original group. Systems & Software distinguished *Concord Orthopaedics* on the business knowledge issue and rejected any limitation of the non-compete to clients of plaintiff at the time of defendant's employment. *Systems & Software* teaches that if a reasonable non-compete will be enforced in the absence of trade secret concerns, it will certainly be enforced where such concerns are present and such agreements should be the instrument of choice for concerned employers.

Maguire v. Gorruso,³³ addressed the interplay between the UTSA and the common law of misappropriation. Maguire owned the *Rutland Shopper* for many years. He sold it to Sammy Gorruso for \$628,000 and a consulting contract for himself. Maguire then took over the business under a new agreement between the parties and agreed to pay \$25,000 to defendants, with defendants' agreeing to have nothing to do with the business. Defendants moved into a separate location in Rutland and started *Sam's Good News Shopper*. Plaintiff was awarded \$143,000 for conversion of property (customer list, computer and photographic equipment, hardware), \$272,000 for unfair competition and \$1 for punitive damages. The court amended the judgment and awarded \$415,535.18 on common law claims of unfair competition and a broad range of misappropriation of skill, expenditures, labor of another. The judgment was upheld on the ground that this was a case involving misappropriation of physical property,³⁴ which Gorruso was found to have personally taken from the office of the *Rutland Shopper* when he left. The common law cause of action was not preempted by the UTSA, since the assets, customer lists, are not "remotely like a trade secret."

Finally, in *Summits 7, Inc. v. Kelly*,³⁵ the trial court enjoined Kelly from working at a competitor of the plaintiff, her former employer. Kelly had entered into a non-compete and was an at-will employee but raised the question on appeal whether adequate consideration existed to support her non-compete. She was hired at a rate of \$10 per hour and rose through the ranks quickly, receiving a series of raises, promotions, and transfers, rising to an annualized salary of \$57,000.

The non-compete was signed by Kelly one year after her hiring, and barred her

competition in Vermont, New Hampshire, and a designated part of New York for a period of twelve months. She signed a similar agreement later and voluntarily left her employment, taking a position with a competitor in Essex Junction. The Vermont Supreme Court focused on Kelly's substantial promotions and pay raises, and found the consideration to support the non-compete was "more than reasonable," relying on the majority of other courts and the draft Restatement (Third) of Employment Law in holding that continued employment alone is sufficient to support a covenant not to compete entered into during the employment relationship.³⁶ Limitation of the geographic area³⁷ was moot because the term of the non-compete had expired.³⁸

A Case Study: Barbies and Bratz

"Bratz" are stylized "fashion" dolls that resemble streetwalking Barbies on steroids. Famous for their oversized heads, hair, lips, eyes, and overt sexuality, they were immensely popular with tweens (girls aged 7 to 12) beginning in 2001, a time when Barbie had begun to lose her youthful allure. The Bratz designer and concept developer, Carter Bryant, was employed by the Barbie-meister, Mattel, Inc., at the time he conceived of Bratz. Subsequently hired by MGA Entertainment, Inc., he apparently slipped his Bratz drawings into his briefcase before leaving the house of Mattel. MGA and its CEO, Isaac Larian, were ordered to pay \$100 million in damages to Mattel as a result of a federal jury verdict in August 2008.³⁹

The Bratz case exemplifies the broad range of theories a spurned employer may assert against its disloyal employee, especially where the disloyalty arguable results in \$1 billion in MGA profits as well as CEO compensation of \$800 million in MGA stock value and distributions associated with the Bratz success.⁴⁰ As a result of the Bratz jury verdict, MGA and Larian were ordered to pay \$20 million and \$10 million, respectively, on each of three causes of action: (1) intentional interference with contractual relations; (2) aiding and abetting breach of fiduciary duty; and (3) aiding and abetting breach of the duty of loyalty. In addition, MGA, its subsidiary, and Larian were ordered to pay \$10 million in copyright damages. No punitive damages were awarded, as the hiring of Bryant was not found to be "willful." One wonders how much more Mattel would have been enriched as a

result of such a finding.

Proceeding on a claim of copyright infringement is an indirect and inefficient way to stop a direct competitor from using trade secrets misappropriated by a former employee of a competitor. For one thing, the matters in question must be the subject of federal copyright registration in order to plead injunctive relief or statutory damages. While copyright registration was once routinely sought at the time of the infringement, delays inherent in the process make this currently impracticable. Thus, most trade secrets will not have registered copyrights at the time action must be taken. More importantly, copyright registration requires that the subject of the copyright be disclosed to the world, as specimens must be filed with the Copyright Office. In the case of the Bratz dolls, their designs and conception would be trade secrets until the product was ripe for the marketplace, at which time the designs are copyrightable. Finally, it is not always an easy task to prove that actual copying by a former employee took place or that the employee had access to the copyrighted material.

Mattel would have been properly advised to require Bryant to execute a well-conceived agreement not to compete with Mattel in consideration for his employment there. He should also have been compelled to agree to a standard non-disclosure or confidentiality agreement with respect to wide swaths of corporate information, including business and marketing plans and product information. As the cases above demonstrate, Vermont follows the generally accepted principle that when a business holder of trade secrets offers employment to an employee he may demand, in exchange, the employee's promise not to reveal the secrets, not to claim ownership of the secrets or any inventions he may develop while employed, as well as an agreement not to compete with his employer for a set term following the termination of that employment.⁴¹

What should Mattel have included in Bryant's non-disclosure agreement? At a minimum, it should:

1. Define "confidential information" and use examples such as: business and financial matters; technical and production information; marketing information; employment information; and any other "proprietary information";
2. State that "confidential information" does not necessarily need to meet

the definition of "trade secret" under the UTSA;

3. Apply the protections to affiliates of the corporate employer;
4. Prohibit disclosure or use of confidential information generally, except to a company officer, director, or authorized representative; in the performance of employment duties; with the company's consent; or to the extent that the information is in the public domain through no fault of the employee;
5. Require the employee to deliver any embodiment of confidential information on demand to his employer (regardless of employment status). This includes: memos, notes, records, reports, documents; copies of such documents; in any storage medium; with a certification that delivery is complete;
6. Include a liquidated damages clause if the non-disclosure agreement and related obligations are contained in an employment severance agreement, requiring the disgorgement of severance payments to the former employer in the event of a breach; and
7. Include a term which is both finite and reasonable. Many trade secrets quickly lose commercial value.

Having signed such a non-disclosure, Bryant would be restrained from sharing his Bratz empire fantasies with Mattel's competitor—or anyone—even in the absence of a non-compete agreement. However, in dealing with a critical player such as a doll designer, Mattel would be well-advised to demand execution of a non-compete agreement with Bryant. At a minimum, such an agreement should include:

1. An express covenant not to compete, exception for prior written consent by Mattel (which may be withheld in the company's sole discretion). The definition of "competitive business" must be reasonable;
2. A prohibition against competition which includes a prohibition against direct or "indirect" competition by, for example, family members, as a membership in a partnership or joint venture, as a principal, officer, director, consultant, employee, or stockholder of any other entity; or by engagement or connection with any other business competitive with the company. Make sure the agreement permits the employee's passive investment in publicly held corporation which is competitive (if

- less than 1 percent, for example);
3. Geographic⁴² and temporal restrictions that are reasonable.⁴³ This may be expressed as “the world,” the United States, New England, the state of Vermont, or a multi-mile radius around the company’s location⁴⁴;
 4. Non-solicitation of other employees;
 5. Non-solicitation of customers⁴⁵;
 6. An agreement that preserves all remedies to the employer, not just equitable remedies;
 7. A provision providing attorney’s fees in connection with litigation arising from the non-compete agreement, even where no actual damage is shown from the competition⁴⁶;
 8. Liquidated damages when appropriate, such as in severance and employment agreements containing an offsetting payment to the employee; and
 9. An agreement that the contract is assignable to an affiliated corporation, or in the event of a merger, acquisition, or other reorganization.

Employees frequently do not understand their employers’ substantial investment in proprietary information. Employees who would consider it downright immoral to take office supplies from their employers often believe it is their right to take electronic or other versions of information upon their departure, to share such information with others, and to exploit and profit from it. Requiring execution of non-disclosure and non-compete agreements generally has significant prophylactic effects, as it educates the employee and puts him on notice that misappropriation of his employer’s property, both tangible and intangible, will not be tolerated and that such agreements, if reasonable, will be enforced in Vermont.

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¹ The only states not to have adopted this uniform legislation are: Massachusetts, New Jersey, New York, and Texas. The UUTSA has been introduced in both New York and New Jersey legislatures.

² 9 V.S.A. § 4601 et seq.

³ 9 V.S.A. § 4609.

⁴ 9 V.S.A. § 4607, subd. (a).

⁵ *Id.* at subd. (b).

⁶ 9 V.S.A. § 4601 (3).

⁷ 9 V.S.A. § 4602 (a).

⁸ *Id.*

⁹ *Id.* at subd. (b).

¹⁰ *Id.* at subd. (c).

¹¹ 9 V.S.A. § 4603, subd. (a).

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.* at subd. (b).

¹⁵ 9 V.S.A. § 4601.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ 18 U.S.C. §§ 1831-1839.

¹⁹ 440 F.3d 418 (7th cir. 2006).

²⁰ See, e.g., Report of the Trade Secrets Committee of the American Intellectual Property Law Association (2007). But note, the Committee concluded that no compelling justification existed for placing this burden on federal courts. See also, Annual Report, 1992-93 American Bar Association Sec. IPL 300-09 (rejecting a proposal for a preemptive trade secrets statute).

²¹ Two cases address whether trade secrets are discoverable. See *State v. Lee*, 924 A.2d 81 (2007) and *Springfield Terminal Railway Co. v. Agency of Transportation*, 174 Vt. 341 (2002).

²² 172 Vt. 10 (2002).

²³ *Omega Optical*, 172 Vt. at ____ (Casemaker at *4).

²⁴ The Court noted in particular that Omega never told its employees of the confidential nature of certain information. When Omega instituted the practice of requiring employees to sign a confidentiality agreement, defendants still employed there refused to sign and resigned. The only effort to maintain secrecy identified in the opinion was the signing out of keys, which was not enforced or even monitored and, for some time, members of the public had access to work areas. The Court also dismissed some security measures as “post hoc rationalizations.”

²⁵ Despite hacking plaintiff’s case to bits, and leaving only one cause of action, we learn from the follow-up case, 417 Mass. 484, that plaintiff received over \$40 million in damages, including double damages under Mass ch. 93A, that state’s business fraud statute. Unfortunately, in a bizarre analysis, it was reversed and remanded for further proceedings.

²⁶ 409 Mass. 165, 565 N.E. 2d 415, 419 (1991).

²⁷ 172 Vt. 43 (2000).

²⁸ Here, the court compared, e.g., lists of “tool jobbers” and those of “financial planners who sell investment grade diamonds,” to customers lists of house cleaners, and lists of maintenance supply companies,

farming and livestock equipment vendors, and trucking companies. *Dicks*, 172 Vt. at 48, 49.

²⁹ *Id.* at 50.

³⁰ See also, *Schwartz v. Frankenhoff*, 169 Vt. 287 (1999) (no *in personam* jurisdiction in Vermont and *dicta* that reverse engineering of food product available on open market does not constitute theft of trade secrets). 178 Vt. 389 (2005).

³¹ Restatement (Third) of Employment Law § 6.05 (Preliminary Draft No. 2, May 17, 2004).

³² See also, *Dyar Sales & Machinery v. Bleiler*, 106 Vt. 425 (1934) (restrictive covenant enforceable even though no trade secrets were threatened to be divulged and defendant’s services were not unique or extraordinary).

³⁴ 702 A.2d 1273 (N. H. 1997).

³⁵ 174 VT 1 (2002).

³⁶ The judgment was lowered to \$273,535.18.

³⁷ *Maguire*, 174 Vt. at 8.

³⁸ 2005 Vt. 97.

³⁹ *Summits 7, Inc. v. Kelly*, 2005 Vt. 97 (Casemaker at *2). The Court seemed to agree that the distinction between pre- and post-hiring non-competes would simply force employers to fire and re-hire.

⁴⁰ Interestingly, the case includes the observation that it is better to limit the scope of a non-compete (the “blue-pencil” rule) than invalidate it, following, “most modern courts,” as well as *Corbin on Contracts*. Nevertheless, it is advisable to include in any non-compete or employment agreement restrictive covenant the mutual authorization of the parties to permit any court in subsequent litigation to modify the agreement rather than refuse to enforce it on the ground that the scope is unreasonable.

⁴¹ The case of *Johnston v. Wilkins*, 175 Vt. 567 (2003), involved the enforcement of a non-compete following a partnership dissolution rather than in the employment context. Nevertheless, it addresses the construction of a non-compete. *Wilkins* had filed suit against *Johnston* and the matter settled when *Johnston* agreed to pay *Wilkins* \$41,500 for his one-half interest in their Jeffersonville veterinary practice. In consideration therefore, *Wilkins* agreed not to “conduct a small animal veterinarian practice within a 20 mile radius of the village of Jeffersonville for a period of five years.” An injunction issued when *Wilkins* violated the non-compete by locating within the twenty-mile radius. *Wilkins* argued that the twenty miles should not be a straight line but should consider road mileage and the distance to customers’ residences. This was rejected. Measurement of the non-compete area has nothing to do with where the customers of the new practice reside. Since the practice was within the prohibited area, the court remanded for findings on attorney’s fees, upheld the injunctive relief but, in a bizarre twist, found no real damage to *Johnston*, agreeing with the trial court that *Wilkins* believed in good faith that the practice was outside the prohibited area.

⁴² BURLINGTON FREE PRESS, Aug. 27, 2008, at 8c (Gillian Flaccus, AP wire story).

⁴³ *Id.*

⁴⁴ Failure to advise of the need to demand a

non-compete from the seller of a business has been characterized as legal malpractice in Vermont. See *Russo & Russo Paving, Inc. v. Griffin and Griffin & Griffin, Ltd.*, 147 Vt. 20 (1986).

⁴⁵ Note that the distance limitation is construed to measure old business to new business, regardless of where the new customers live. See, e.g., *Johnston v. Wilkins*, 175 Vt. 567 (2003).

⁴⁶ Such agreements, where contained in employment agreements, will be "carefully scrutinized," since employment contracts "often result from unequal bargaining power." *Summits 7*, 2005 Vt. at 97. "The modern approach is one of reasonableness." *Id.*

⁴⁷ Note that "radius" when used with "miles" has been construed to mean "unambiguously" that the mileage is measured in a straight line, and not by highway miles. See, *Johnston v. Wilkins*, 175 Vt. 567 (2003) ("within a 20-mile radius" means a straight line extending ... to the circumference of a circle rather than of traveled highways").

⁴⁸ "Customer" may be defined as "a person or organization for which Employee has performed services or to which he has sold or attempted to sell products or services during the 24-month period preceding termination of employment, and/or for which the company has performed services or sold product during the same period."

⁴⁹ See, e.g., *Johnston v. Wilkins*, 175 Vt. 567 (2003) (attorney's fee provision in non-compete between two separating veterinarians, fees denied where no actual damages).

